

**Follow-up Audit
Cash Handling**

April 2000

City Auditor's Office

City of Kansas City, Missouri

April **, 2000

Honorable Mayor and Members of the City Council:

This follow-up report was initiated in accordance with the City Auditor's Office policy of determining progress in improving operations subsequent to the issuance of audit reports. The 1996 audit of the city's change, petty cash, meal allowance, and recording fee funds found significant cash handling weaknesses and made a number of recommendations intended to strengthen monitoring and supervision; establish safeguards and controls; improve regulations; and provide cash handling training.

Some locations identified in the 1996 audit as having problems have improved cash safeguarding procedures. Parks and Recreation Department staff at the zoo have made significant progress in strengthening controls over cash operations since the original audit. Our September 1999 unannounced cash count at the zoo found that cash balanced to reported totals, with appropriate operational controls in place. Although close to 400 employees have been trained in proper methods of handling cash, not all cash handling personnel have received training.

Although management has taken initial steps to improve the operation and monitoring of cash handling activities, additional improvements are needed. The city's cash procedures, while updated, are not uniformly followed and few cash reviews are performed. Change and petty cash funds still include fund amounts that do not match Finance Department records. In addition, city records regarding petty cash fund custodians are inaccurate. Information on variances in fund amounts and discrepancies in petty cash custodians has been provided to the Finance Department for investigation and resolution. In order to decrease the potential risk of loss or misappropriation, we recommend that the city manager act to improve compliance with current procedures.

The draft follow-up report was sent to the city manager and the acting director of finance on March 17, 2000. Their written responses are included as appendices. We appreciate the courtesy and cooperation extended to us during this project by city staff. The audit team for this project was Sean Hennessy, Nancy Hunt, and Joyce Patton.

Mark Funkhouser
City Auditor

Follow-up Audit: Cash Handling

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Introduction

Objectives

This follow-up audit of the city's cash handling operations was conducted pursuant to Article II, Section 13 of the Charter of Kansas City, Missouri, which establishes the Office of the City Auditor and outlines the city auditor's primary duties.

A performance audit is an objective, systematic examination of evidence to independently assess the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making.¹ A follow-up audit examines the actions taken in response to the problems identified and recommendations made in a previous audit.

This follow-up audit was designed to answer the following questions:

- Does management monitor cash handling?
- Does the city have effective cash handling policies and procedures?
- Have employees who handle cash received training?

Scope and Methodology

This follow-up audit is not intended to be another full-scale audit of the city change, petty cash, meal allowance, and recording fee funds; rather, the report assesses the city's progress in addressing problems identified in the April 1996 report.²

We conducted this audit in accordance with generally accepted government auditing standards, except for completion of an external quality control review of the office within the last three years.³ Our methods included:

¹ Comptroller General of the United States, *Government Auditing Standards* (Washington, DC: U.S. Government Printing Office, 1994), p. 14.

² *Joint Audit of City Change, Petty Cash, Meal Allowance and Recording Fee Funds*, Office of the City Auditor and Finance Department, Kansas City, Missouri, April 1996.

³ Our last external review was April 1995; a review is planned for the current year.

- Interviewing city staff.
- Analyzing financial information in the city's mainframe accounting system for fiscal years 1998, 1999, and 2000 and the incident report database (IRIMS) system.
- Conducting an unannounced cash count at the zoo.
- Reviewing city records related to petty cash and change funds, the April 1996 audit, selected work papers, and Audit Report Tracking System (ARTS) reports.
- Reviewing selected provisions in the Manual of Instructions, Code of Ordinances, and city charter.

No information was omitted from this report because it was deemed privileged or confidential.

Background

City employees collect and disburse cash through a number of funds throughout the city.⁴ Cash is collected for various reasons, including water payments, permit sales, or admittance to city facilities such as the zoo. The city establishes change funds to facilitate making change when individuals make payments or purchases. Petty cash funds provide a quick and convenient method of paying for minor expenses incurred in daily operations.

Legislative Authority

Responsibilities for cash operations are outlined in the city charter, Code of Ordinances, and Manual of Instructions. The director of finance's primary duties are to administer the financial affairs of the city; supervise accounts and financial records; and to supervise the collection, custody, and disbursement of city funds.⁵ Under the city code, the finance director also has the duty to exercise general supervision over all offices of the city regarding the proper management of fiscal concerns and to prescribe rules and regulations governing the forms and procedures necessary to maintain the accounts in conformity with city requirements.⁶

⁴ For the purposes of this report, cash may include currency, coin, checks, and credit card activity.

⁵ Charter of Kansas City, Missouri, Art. IV, Sec.77.

⁶ Code of Ordinances, Kansas City, Missouri, Sec. 2-191(c) and Sec. 2-1674.

The director also approves or disapproves the establishment of cash funds, and promulgates and approves all related policy matters and system changes. The city treasurer and the commissioner of accounts, who report to the director of finance, also have cash related responsibilities.

The city treasurer is responsible for the custody of all public moneys of the city and the collection of all revenues or moneys payable to or receivable by the city.⁷

The commissioner of accounts is responsible for maintaining the financial accounts of the city needed to record all assets and revenues as well as all cash receipts and disbursements.⁸ The commissioner is also responsible for approving cash fund ceilings, auditing cash fund reimbursement requests for approval or disapproval, developing necessary policies and procedures governing cash funds and publishing approved operating instructions.

The Manual of Instructions (MIs) contains directions on proper cash handling practices and procedures, including instructions developed for specific types of fund activity. According to the MIs, department heads are responsible for appointing cash custodians, auditing funds upon change of custodians, and ensuring that custodians properly perform their responsibilities of controlling, accounting for, and securing cash.

Summary of the 1996 Joint Cash Audit

The original audit, issued by the City Auditor's Office and the Finance Department, identified cash handling weaknesses, including inadequate monitoring and supervision; lack of safeguards and controls; incomplete regulations; untimely deposits; and lack of cash handling training. Recommendations contained in the original report are provided in Appendix A. Audit Report Tracking System (ARTS) Reports submitted by management are included in Appendix B.

⁷ Charter of Kansas City, Missouri, Art. IV, Sec.79.

⁸ Charter of Kansas City, Missouri, Art. IV, Sec.78.

Findings and Recommendations

Summary

The city's cash procedures are not uniformly followed. Without compliance and adequate oversight of cash handling, the city remains susceptible to loss or misuse of funds. In order to strengthen accountability and control over city assets, on-going oversight and continued efforts are needed.

Cash handling at the zoo, however, has improved. Deposits are made daily and supervision has been strengthened. Some locations identified in the 1996 audit as having problems have also improved cash safeguarding procedures and controls. The Finance Department developed and updated cash handling instructions. In addition, Finance and the Parks and Recreation Department have trained close to 400 city employees in proper cash handling procedures.

Monitoring of Cash Should Be Strengthened

While cash operations at some sites have improved and initial steps were taken to address cash handling problems identified in the original audit, few comprehensive or on-going efforts continue. Financial records related to change and petty cash funds did not always match information supplied by cash custodians. Cash reviews are rarely performed, deposit activities are not monitored for compliance with daily deposit requirements, and unusually coded transactions are not always investigated. Without adequate oversight of cash handling, the city remains susceptible to loss or misuse of funds, and those losses may go undetected.

The original audit found inadequate monitoring and supervision of cash handling activities. The 1996 audit recommended a number of improvements designed to strengthen oversight, including on-going monitoring efforts such as reviews of cash operations, with unannounced counts of cash.

Change and Petty Cash Funds Varied from Finance Department Reports

Change and petty cash fund custodians report fund amounts that do not always match the amounts established in Finance Department records. In our February 2000 survey of cash custodians, about one third of the change fund custodians and one-sixth of the petty cash fund custodians reported variances. (See Exhibit 1.) Two cash and three petty cash custodians reported that their funds were closed. The status of three additional petty cash funds could not be determined.

Exhibit 1. Change Fund and Petty Cash Fund Variances

	Change Funds	Petty Cash Funds
Number of Funds	26	70
Dollars Assigned	\$77,685	\$13,650
Number of Funds with Dollar Variances	9	11
Range of Dollar Variances	\$2 to \$4,800	\$50 to \$300
Total Dollar Variance	\$5,080	\$1,350

Sources: Finance Department records and survey responses.

The reported variances in fund size could be caused by different factors. Custodians may have misstated the actual size of their fund, the proper procedures in requesting or recording changes in fund size may not have been followed, completed documentation may have gone astray, or improprieties in handling of the fund could have occurred. We did not conduct cash counts of funds for which variances were reported; however, we provided the information to the Finance Department's Accounts Division.

Managers have a duty to be good stewards of the resources committed to their care. Good stewardship requires that accounting records are properly maintained and periodically reconciled. The loss or misappropriation of improperly recorded assets may not be detected without periodic verification. The director of finance should investigate and resolve variances in reported base change and petty cash funds and Finance Department records.

Cash Reviews Are Rarely Performed

Few city cash operations undergo external review. Finance Department personnel conducted 4 cash handling reviews, but none since 1996. Of the 26 current change funds only 4 locations reported reviews related to cash handling operations during the last two years; 3 of these locations were Parks and Recreation Department operations. The original audit recommended that managers perform cash reviews, investigate any

unusual activities, and document corrective actions, with particular attention given to Parks and Recreation locations.

Management review can serve as a deterrent against employee theft, and reinforces the use of proper procedures. Reviews of cash operations can also serve as an independent check of actual performance and detect irregularities.

Compliance with City's Deposit Requirement Is Not Monitored

Most cash custodians reported making deposits as frequently as city code requires, but a few did not. The code requires that deposits be made daily; or when accumulated cash totals less than \$100, deposits should be made weekly, with no undeposited moneys carried over at month end or fiscal year end.

One location reported making deposits approximately once every two weeks, although moneys accumulated regularly exceeded the city's deposit requirement. We originally recommended that management ensure compliance with the city's deposit requirements.

The Finance Department is not monitoring other departments' compliance with deposit requirements, even though it receives information on all deposit activity. Finance reported that limited staffing made it difficult to verify deposit activity. However, the department plans on addressing the code requirements during 2000. Frequent deposit of cash minimizes the amount of cash on hand, decreases the risk of loss or misappropriation, and ensures that city assets are invested to best advantage. The city manager should ensure that departments comply with the city cash deposit requirements.

Cashier Overages and Shortages Not Consistently Reported

The category in the city's financial accounting system designated for cash discrepancies is not used consistently for this purpose. Some change fund custodians told us that although overages and shortages did occur, these discrepancies were not reported under code 1904. We also found that some entries recorded under 1904 appeared to be miscoded. The original audit recommended that cashier overages and shortages be properly reported under object code 1904, "cashier shortages".

Consistently recording overages and shortages to "cashier shortages" would establish a history of cash handling irregularities. Patterns that emerge could be used to measure employee performance and identify areas where additional training or other corrective action should be

taken. Without this history, management may not be aware that performance improvements are needed. In addition, improperly reporting overages and shortages could result in incorrect information being included in the city's financial reports. The city manager should ensure that departments properly record cash variances.

Change Funds Not Always Reconciled

Most change fund custodians reported that change funds were reconciled daily, or as used, for funds that are used on only certain days during the year. However, one fund custodian reported never reconciling the assigned change fund. The city's cash handling procedures require that cashiers balance and reconcile cash activity daily.

It is management's responsibility to safeguard cash. Infrequent reconciliation of transaction activity presents opportunities for the misappropriation of city assets and increases the likelihood that missing assets will not be recovered. The city manager should ensure daily reconciliation of cash activities.

City Records Do Not Accurately Identify Responsible Custodians

Departments are not complying with MI requirements for appointing custodians and assistants. MI 2-12 on petty cash funds provides a form and procedure for reporting changes in petty cash custodians. The MI also requires that each petty cash fund have an assistant custodian to handle the fund in the absence of the regular custodian.

The names of petty cash custodians listed in Finance Department records are not always correct. Of the 70 petty cash funds reviewed, 37 funds correctly listed the custodian and assistant custodian assigned to the fund. Nineteen individuals identified as either custodian or assistant custodian in Finance Department records are no longer employed by the city, and two custodians are deceased. For four funds, no one listed in the Finance Department records is currently a custodian, although replenishment checks have been issued to two employees not listed as custodian. In addition, nine custodians reported that they did not have an assistant petty cash custodian, and another custodian told us that she did not know who the assistant custodian was.

Departments should ensure that city records accurately identify the cash custodian responsible for maintaining and distributing each petty cash fund and take steps to comply with other requirements of MI 2-12. Accurate records establish accountability, and should be used to ensure that replenishment checks are requested for and written to a fund's actual

custodian. We forwarded information on variances in assigned and reported petty cash custodians to the Finance Department.

Efforts to Close Pop Funds Continue

The Finance and Law departments are working to bring all departments into compliance with city requirements and restrictions on vending machines located on city property.

A single vendor currently has an exclusive contract to establish, manage and operate vending machines in City Hall and Municipal Court. The contract permits other City locations to be added. Lease agreements for vending machine equipment located on city property should be in writing, made in the name of the city, and approved by the City Council when necessary. The revenue from such contracts should be paid to the city or used to fulfill contract obligations with the vendor.

In our original audit, we found a number of locations improperly collected a portion of vending machine revenue from machines located on city property to fund employee functions and the purchase of gifts. We recommended that pop funds that existed in violation of the city charter and code be closed.

Control Environment Improved at Some Locations

Our follow-up found that the Parks and Recreation Department made significant progress in improving cash operations at the zoo. The zoo's cash operation is well organized, with clear and established procedures. The department also instituted new procedures at the golf courses, and the number of reported voided sales dropped. Other previously identified problem locations improved their safeguarding of cash assets.

Zoo Cash Handling Improved

Our follow-up found that cash handling at the zoo was greatly improved and cash controls are in place. Our original audit found \$169,000 in uncounted and undeposited cash receipts at the zoo.

In September 1999, we conducted an unannounced cash count at the zoo and found that cash balanced to reported totals. The cash operation was well organized with clear policies and procedures. The control environment for the zoo's cash operation appeared to be strong, with

daily operations running smoothly. We performed our review during the same business week (Labor Day week) as the count in our original audit.

The Parks and Recreation department reassigned responsibility for cash operations at the zoo. Zoo staff are making deposits daily and Parks and Recreation personnel have conducted an unannounced cash count. The original audit recommended additional reviews of zoo operations, including unannounced cash counts.

Number of Voids at the Golf Courses Has Decreased

Reported voided sales at golf courses are much lower than we found in previous audit. Voids at Hodge and Minor golf courses averaged 3 or less per day in July of 1998 and 1999. The original audit found that Minor and Hodge golf courses averaged 24 to 25 voids per day during a 23-day period in 1995. Excessive voided sales could mean that a sale occurred, the funds received were diverted to the use of a perpetrator, and the sale was subsequently voided to cover a theft.

Parks and Recreation staff reported instituting new controls and monitoring. The previous audit recommended that segregated duties or compensating controls be used to establish control over voids. We will review this issue in planning for our golf course follow-up audit.

Cash Safeguarded at Problem Locations

We re-visited or re-examined problem locations identified in the original audit and found that staff were appropriately safeguarding cash. In other cases, the cash funds had been closed. The 1996 audit identified locations where city moneys had been held in a cigar box, billfolds, and personal bank accounts.

Instructions Updated, But Continuing Efforts Required

Since the original audit, MIs have been updated, and other instructions are now included in training materials for the new accounting system; however, additional instructions should be developed to provide further guidance. The original audit found that city policies and procedures regarding cash handling were outdated, unclear, or incomplete. We recommended the development of an accounting manual to provide guidance on the proper method of accounting for and handling city assets and to ensure consistency in operations.

Finance Updated the Manual of Instructions

The Finance Department has taken several steps to improve cash handling policies and procedures. Beginning in 1995, Finance Department staff and a volunteer committee of staff from operating departments participated in an initial review and update of the city's MIs. In the 1996 management letter, the city's independent auditor reported the implementation of an accounting manual recommendation. In May 1999, the Finance Department issued an updated version of the MIs that contained new and revised procedures. The 1996 audit recommended that the Finance Department revise instructions in the city's Manual of Instructions as an initial step in the establishment of comprehensive and consistent cash handling regulations.

Improvements to MI 6-2, *Cash Handling Procedures*, included basic procedures related to handling, security, deposit, and reconciliation of cash. MI 2-12, *Petty Cash Funds*, was updated to contain instructions for electronic processing, and forms for updating fund size and custodians.

Policies and procedures are a basic element in an effective control environment. Compliance with standard regulations must be viewed as an essential and integral part of the process of providing services to citizens and of accurately reporting the financial condition of the city.

Finance established procedures for recording fee and meal allowance. Procedures for handling fees and meal allowances have been updated and are more efficient. MIs establishing appropriate procedures for recording fees and meal allowances were issued and then updated in 1999. Beginning in June 1999, meal allowance payments are included in employee paychecks.

Our original audit found that recording fee and meal allowance reimbursements were handled inefficiently. The 1996 audit recommended that staff investigate the possible inclusion of meal allowance payments in employee paychecks. Direct payroll payment was seen as a more efficient and effective payment method and ensured that cash was not diverted from the intended recipient.

Accounting Instructions Require On-Going Update and Revision

Finance personnel have worked to revise and update accounting instructions. MIs are available on-line via Lotus Notes, providing many employees with direct access to the accounting instructions contained in these documents. In addition to the MIs, directions on the proper

recording of some accounting transactions are provided in training materials related to the city's new financial management system.

While progress has been made, on-going efforts to revise and update accounting procedures should continue. Finance is currently working on a MI covering the appropriate use of direct payments. Other procedures that would also benefit the city could include instructions on the preparation of cash receipt forms and chain of custody documentation for cash handling locations.

Finance and Parks Train Employees in Cash Handling

Almost 400 employees have received cash handling training since the original audit; however, not all cash handling employees have been trained. The original audit found that a majority of cash handling personnel was unfamiliar with city rules on cash handling.

Treasury and Parks Provide Cash Handling Training

Since the original audit, 381 employees have received initial cash handling training. According to city records, Treasury provided training to 277 employees, and Parks and Recreation Department staff trained 104 additional cash handlers.

One-day training sessions are based on a training manual that generally follows the instructions provided in MI 6-2. A series of "hands-on" exercises simulate cash handling situations that might be encountered while on the job, and a question and answer period are also included. The training materials used by Parks and Recreation are the same as those used by other city employees, except modifications were made to address the operating requirements of the zoo.

Requests for training continue. We asked change fund custodians whether their cash handling personnel had received initial cash handling training. Most locations indicated that all or some of their current cash handlers had received training; however, a number also reported that they had employees who could benefit from cash handling training and would be interested in sending staff to training when it is next offered.

Initial training and periodic review of cash handling procedures should be provided to ensure all cash custodians know the city's policies and procedures and that they perform their cash handling duties in accordance with the city's established practices. The city manager

should ensure that initial and ongoing training is provided to all employees who handle cash.

Recommendations

1. The director of finance should investigate and resolve variances in reported base change and petty cash funds and Finance Department records.
2. The director of finance should investigate and resolve discrepancies in reported petty cash custodians.
3. The director of finance should update the Manual of Instructions to provide guidance on the appropriate procedures for handling and recording cash transactions.
4. The city manager should take steps to ensure compliance with city requirements regarding cash deposits, daily reconciliation of cash activity, and proper recording of cashier variances.
5. The city manager should ensure initial training for all employees involved in cash handling and periodic review courses for experienced cash handling personnel.

Appendix A

Prior Audit Recommendations

Prior Audit Recommendations

Cash should be handled in a manner consistent with established policies and good business practices. The city manager and, as applicable, the Director of the Parks and Recreation Department should:

1. Direct managers to safeguard and restrict access to cash and other assets, perform unannounced counts of cash and other assets, investigate any unusual or questionable activities, and document corrective action.
2. Establish a clear record of responsibility and accountability for cash and other assets.
3. Require daily accounting of assigned change funds and timely accounting of convertible inventories.
4. Require cashier overages and shortages be reported daily to object code 1904, "cashier shortages".
5. Purchase or repair equipment necessary to safeguard city assets.
6. Require initial training for all employees involved in cash handling and periodic review courses for experienced cash handling personnel. Employees should receive instruction in proper cash handling techniques, be given copies of procedures, and provided a basic understanding of the purpose and importance of the procedures.
7. Require departments to designate petty cash custodians in accordance with MI 2-28, and provide in a timely manner the names of current custodians to the commissioner of accounts. Departments with meal allowance and recording fee funds should provide the names of current custodians to the commissioner of accounts with replenishment checks made out only to those individuals.
8. Prohibit the use of unsupervised voids at locations where staffing permits; in other locations, compensating controls should be established.
9. Conduct additional reviews of zoo and golf course operations, as well as reviews of other Parks and Recreation Department cash handling locations not included in this audit report.
10. Ensure compliance with the deposit requirements of the city code.
11. Close any pop funds that exist in violation of the city charter and code.

12. Evaluate the activity of each change, petty cash, and meal allowance fund; determine the appropriate size of the fund based on the activity; and adjust the size of fund if warranted.

The city manager should:

13. Establish procedures for meal allowances and recording fee funds, with the method for replenishing both funds changed to match procedures used for petty cash funds. Investigate the future inclusion of meal allowance payments in payroll checks.
 14. Direct the development of an accounting manual to provide guidance on the proper method of accounting for and handling city assets. As an initial step in the development of such a manual, cash and accounting related instructions contained in the current MIs and ARs should be reviewed and updated.
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Appendix B

Audit Report Tracking System (ARTS) Reports

Audit Report Tracking System			
1.	Audit Title Change, Petty Cash, etc. Funds	2.	This Report Date October 11, 1996
3.	Department Finance	4.	Last Report Date not applicable
5.	Department Head Janice Reed	6.	Contact Person/Phone Wanda Gunter / 274-1743
7.	Audit Release Date April 22, 1996	8.	ARTS Number 956-023
9. Status of All Audit Recommendations			
<div style="display: inline-block; width: 45%;"> Status <hr/> </div> <div style="display: inline-block; width: 45%;"> Date <hr/> </div>		<div style="display: inline-block; width: 45%;"> Status <hr/> </div> <div style="display: inline-block; width: 45%;"> Date <hr/> </div>	
1. Implemented 5/15/96		8. Implemented 4/22/96	
2. Implemented 9/27/96		9. Implemented 9/16/96	
3. Implemented 5/15/96		10. Implemented 9/19/96	
4. Implemented 5/1/96		11. In progress 10/11/96	
5. In progress 10/11/96		12. Implemented 9/19/96	
6. Implemented 5/15/96		13. In progress 10/11/96	
7. Implemented 4/22/96		14. Implemented 5/1/96	
10. Recommendations Included in this Report			
<p>Recommendation No. 1. Direct managers to safeguard and restrict access to cash and other assets, perform unannounced counts of cash and other assets, investigate any unusual or questionable activities, and document corrective action.</p> <p>Description of Status: (Implemented) Beginning in mid May 1996 departments were contacted to make appointments for their cash handlers to attend cash handling training. Since then, 155 handlers have attended training. In addition, unannounced cash counts have occurred at the Zoo, Municipal Correctional Institution, Convention and Entertainment and Minor Golf Course. No questionable activities were noted in the cash counts. Corrective action was recommended at Municipal Correctional Institution to reduce the size of their inmate change fund from \$2,000 to \$500 which was done.</p> <p>Recommendation No. 2. Establish a clear record of responsibility and accountability for cash and other assets.</p> <p>Description of Status: (Implemented) Manual of Instruction (MI) 6-2, Cash Handling Procedures, was revised and distributed September 20, 1996; MI 2-28, Petty Cash Funds, was distributed March 6, 1996; MI 2-32, Meal Allowance Funds was</p>			

Audit Report Tracking System

Audit Title: Change, Petty Cash, etc. Funds

Report Date: October 11, 1996

distributed September 11, 1996, MI 2-35, Change Funds, was distributed September 16, 1996; and MI 2-33, Recording/Filing Fee Funds, was distributed September 27, 1996.

The MIs establish the department director as the person who will be responsible and accountable for cash, cash related items and other assets.

Recommendation No. 3. Require daily accounting of assigned change funds and timely accounting of convertible inventories.

Description of Status: (Implemented) Of those departments reviewed, all are counting their change funds on a daily basis. MI 6-2 requires daily accounting of assigned change funds and periodic accounting of convertible inventories. Other departments will be reviewed in unannounced cash counts and documentable daily accounting will be validated.

Recommendation No. 4. Require cashier overages and shortages be reported daily to object code 1904 "cashier shortages."

Description of Status: (Implemented) The Parks and Recreation Department golf courses are now reporting overages and shortages to object code 1904 instead of fund balance code 3330. The Finance Department, Treasury Division is also reporting overages and shortages on a daily basis. Other departments will be reviewed in unannounced cash counts to validate the recording of cash overages and shortages to the proper code.

Recommendation No. 5. Purchase or repair equipment necessary to safeguard city assets.

Description of Status: (In progress) The revised MI 6-2 referred to in recommendation number 2 requires functional equipment for safeguarding all city assets. Each Investment Group has been provided MI 6-2. Compliance will be monitored during follow-up audits. Any Investment Group or department using inappropriate or dysfunctional equipment will be informed that they are not in compliance.

Audit Report Tracking System

Audit Title: Change, Petty Cash, etc. Funds

Report Date: October 11, 1996

Recommendation No. 6. Require initial training for all employees involved in cash handling and periodic review courses for experienced cash handling personnel. Employees should receive instruction in proper cash handling techniques, be given copies of procedures, and be provided a basic understand of the purpose and importance of the procedures.

Description of Status: (Implemented) Finance Department, Treasury Division began conducting cash handling classes during mid May 1996. Through September 30, 1996, a total of 155 employees have attended the cash handling training class. Cash handling training will be an on-going program for all cash handlers. In accordance with the audit recommendation, MI 6-2, Cash Handling Procedures, was revised and distributed to Investment Groups on September 20, 1996.

Recommendation No. 7. Require departments to designate petty cash custodians in accordance with MI 2-28, and provide in a timely manner the names of current custodians to the commissioner of accounts. Departments with meal allowance and recording fee funds should provide the names of current custodians to the commissioner of accounts with replenishment checks made out only to those individuals.

Description of Status: (Implemented) MI 2-28, 2-32 and 2-33 require department directors to notify the Commissioner of Accounts immediately upon naming new or replacing petty cash custodians. The Finance Department, Accounts Division has implemented a process to periodically validate the names of custodians by requesting written confirmation of Accounts records.

Recommendation No. 8. Prohibit the use of unsupervised voids at locations where staffing permits; in other locations, compensating controls should be established.

Description of Status: (Implemented) This recommendation specifically spoke about the golf courses in Parks and Recreation. In the unannounced cash count of Minor Golf Course, it was noted that voids were accounted for and were directly related to sales that occurred immediately prior to the void occurring. In addition, MI 6-2 specifically prohibits unsupervised voids. Other departments will be reviewed for their compliance to this recommendation during future unannounced cash counts.

Audit Report Tracking System

Audit Title: Change, Petty Cash, etc. Funds

Report Date: October 11, 1996

Recommendation No. 9. Conduct additional reviews of zoo and golf course operations, as well as reviews of other Parks and Recreation Department cash handling locations not included in this audit report.

Description of Status: (Implemented) An unannounced review of the Zoo was conducted on August 26, 1996. Minor Golf Course was reviewed on September 16, 1996. Other park locations will be included in future unannounced reviews.

Recommendation No. 10. Ensure compliance with the deposit requirements of the city code.

Description of Status: (Implemented) Finance Department, Treasury Division has obtained a balance reporting module from its primary bank that will allow the monitoring of deposits being made into the City's bank account. This covers deposits by the departments and incoming electronic payments that will assist with deposit monitoring and cash management aspects. All of the cash handlers attending the cash handling training classes have been advised of the City's deposit requirements in accordance with the Code of General Ordinances 2-200. In addition, Treasury is working to establish a formal communication link with each Investment Group on a departmental basis to assist in deposit processing aspects.

Recommendation No. 11. Close any pop funds that exist in violation of the city charter and code.

Description of Status: (In progress) The process for closing any pop funds that violate the city charter and code will begin with a questionnaire directed to each department or division that stated they had a pop fund during a request from the Finance director's office in January 1995. The questionnaires will ask whether there is a written contract committing the department/division for vending machines; whether the machines are accessible to the general public; whether city vendors are stocking the machines and whether city associates are stocking the machines on city time. The results of the questionnaire will delineate which funds are in violation and which funds are truly associate related, whereby not governed by the charter or code.

Audit Report Tracking System

Audit Title: Change, Petty Cash, etc. Funds

Report Date: October 11, 1996

Recommendation No. 12. Evaluate the activity of each change, petty cash, and meal allowance fund; determine the appropriate size of the fund based on the activity; and adjust the size of fund if warranted.

Description of Status: (Implemented) Evaluations of existing change funds has resulted in a net cash reduction of \$25,325 in change funds. Change funds that have been cut are in the following areas: Finance Department, Treasury Division by 50%, Municipal Correctional Institution by 75%, and Municipal Court by 55%.

When MI 2-28, Petty Cash Funds, was rewritten in March 1996 the maximum amount of a single reimbursement was increased from \$20.00 to \$50.00 and prior restrictions for the usage of petty cash were lifted. Currently, petty cash funds do not appear to be excessive.

Recommendation No. 13. Establish procedures for meal allowances and recording fee funds, with the method for replenishing both funds changed to match procedures used for petty cash funds. Investigate the future inclusion of meal allowance payments in payroll checks.

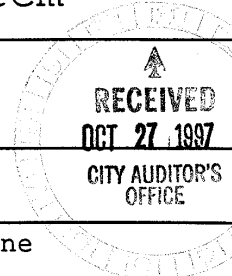
Description of Status: (In progress) Procedures for meal allowance and recording fee funds have been established as indicated in recommendation number. 2. The possibility of including meal allowance payments in payroll checks will be deferred until the next labor negotiation affecting the memorandum of understanding.

Recommendation No. 14. Direct the development of an accounting manual to provide guidance on the proper method of accounting for and handling city assets. As an initial step in the development of such a manual, cash and accounting related instructions contained in the current MIs and ARs should be reviewed and updated.

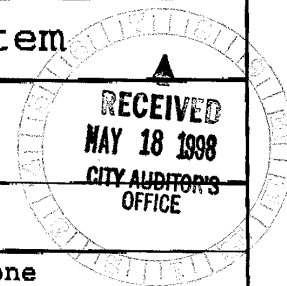
Description of Status: (Implemented) An Accounting Manual was issued in three (3) parts during May 1996. Additionally, since May 1996 revised MIs have been issued on Cash Handling and Petty Cash and new MIs have been issued on Meal Allowances, Recording Fees and Change Funds.


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Audit Report Tracking System																																			
1.	Audit Title Change, Petty Cash, etc. Funds	2.	This Report Date 3/3/97																																
3.	Department Finance	4.	Last Report Date 11-Oct-96																																
5.	Department Head Janice M. Reed	6.	Contact Person/ Phone Wanda Gunter 274-1743																																
7.	Audit Release Date 4/22/96	8.	ARTS Number 956-023																																
9. Status of All Audit Recommendations																																			
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7. Implemented	4/22/96	14. Implemented	9/27/96																																
10. Recommendations Included in this Report																																			
<p>5. Purchase or repair equipment necessary to safeguard city assets.</p> <p>Description of Status: (Implemented) Financial Services has distributed MI 6-2 Cash Handling, MI 2-28 Petty Cash Handling Procedures, and MI 2-32 Meal Allowance Funds. In addition, there have been cash handling training classes and a petty cash handling class for all investment groups. Both the written materials and the training stress the safeguarding of City assets. Accountability for compliance is charged to each cash handling operation. Financial Services will monitor only through additional audits and site visits.</p>																																			
<p>11. Close any pop funds that exist in violation of the city charter and code.</p> <p>Description of Status: (In Progress) A survey is in progress to determine the number of "pop funds" that exist and to also determine if any of them violate the city charter or code. Any funds that are in violation of the charter or code will be closed.</p>																																			
<p>13. Establish procedures for meal allowances and recording fee funds, with the method for replenishing both funds changed to match procedures used for petty cash. Investigate the possibility of inclusion of meal allowance payments in payroll checks.</p> <p>Description of Status: (In Progress) Procedures have been written and distributed. The possibility of including meal allowances in payroll checks will not be addressed until the next labor negotiation.</p>																																			

Audit Report Tracking System			
1. Audit Title City Change, Petty Cash, Meal Allowance and Recording Fees	2. This Report Date 10/09/97		
3. Department Finance	4. Last Report Date 03/03/97		
5. Department Head Janice M. Reed	6. Contact Person/Phone Gary Morris x2323		
7. Audit Release Date April, 1996	8. ARTS Number 956-023-3		
9. Status of All Audit Recommendations			
Status	Date	Status	Date
1 Implemented	05/15/96	8 Implemented	04/22/96
2 Implemented	09/27/96	9 Implemented	09/16/96
3 Implemented	05/15/96	10 Implemented	09/19/96
4 Implemented	05/01/96	11 In Progress	
5 Implemented	03/03/97	12 Implemented	09/19/96
6 Implemented	05/15/96	13 In Progress	
7 Implemented	04/22/96	14 Implemented	09/27/96
10. Recommendations Included in this Report			
<p>Recommendation No. 11: Close any pop funds that exist in violation of the city charter and code.</p> <p>Description of Status: (In Progress) A survey of city departments has been conducted to determine the number of pop funds and other similar funds that exist. As expected a wide variety of employee funds exist. The survey is currently being analyzed and follow up questions will be prepared in some instances to clarify the operations and purpose of certain funds. Once this process is complete a determination will be made if any funds violate the charter or code. If so, the department director will be notified of the appropriate action that needs to be taken.</p>			
<p>Recommendation No. 13: Establish procedures for meal allowances and recording fee funds, with the method for replenishing both funds changed to match procedures used for petty cash. Investigate the possibility of inclusion of meal allowance payments in payroll checks.</p> <p>Description of Status: (In Progress) Procedures for meal allowances and recording fee funds have been written and distributed. The possibility of including meal allowances in payroll checks will not be addressed until the next labor negotiation since the current procedures, authorized by the Memorandum of Understanding, require the city to make a reasonable effort to pay the meal allowance during the employee's first shift after it is earned, but in no event shall payment be delayed beyond 15 days. The audit recommendation will be forwarded to the Human Resources Department to determine if the change can be included in the upcoming labor negotiation and the tax consequences and possible payroll system modifications will be studied.</p>			

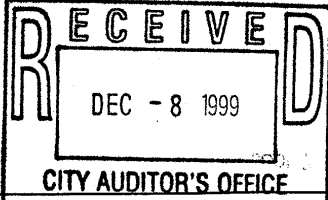
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<p>Recommendation No. 11: Close any pop funds that exist in violation of the city charter and code.</p> <p>Description of Status: (In Progress) A survey of city departments has been conducted to determine the number of pop funds and other similar funds that exist. As expected a wide variety of employee funds exist. The Law Department has recently responded to questions raised by the Finance Department with regard to the charter and code and how they apply in this matter. A determination will now be made as to which funds either need to be closed or modified to comply with the charter and code. Department directors will be notified of the recommended appropriate action that should be taken on each fund.</p> <p>Recommendation No. 13: Establish procedures for meal allowances and recording fee funds, with the method for replenishing both funds changed to match procedures used for petty cash. Investigate the possibility of inclusion of meal allowance payments in payroll checks.</p> <p>Description of Status: (In Progress) Procedures for meal allowances and recording fee funds have been written and distributed. The current meal allowance procedures, authorized by the Memorandum of Understanding (MOU), require the city to make a reasonable effort to pay the meal allowance during the employee's first shift after it is earned, but in no event shall payment be delayed beyond 15 days. Therefore, the current MOU does not allow for the meal allowance to be paid on the employees next payroll check. However, the inclusion of meal allowances with payroll has been agreed to by local 500 during the recent union negotiations. Once the required language changes are incorporated into the revised MOU, which should occur during the fall, 1998 sessions, the Finance Department will begin the implementation of the recommendation. It is anticipated that the implementation will correspond with the conversion to the city's new payroll system in January, 1999.</p>																																	



Audit Report Tracking System			
1. Audit Title City Change, Petty Cash, Meal Allowance and Recording Fees	2. This Report Date 12/14/98		
3. Department Finance	4. Last Report Date 05/01/98		
5. Department Head Janice M. Reed	6. Contact Person/Phone Gary Morris x2323		
7. Audit Release Date April, 1996	8. ARTS Number 956-023-5		
9. Status of All Audit Recommendations			
Status <hr/>	Date <hr/>	Status <hr/>	Date <hr/>
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3 Implemented	05/15/96	10 Implemented	09/19/96
4 Implemented	05/01/96	11 In Progress	
5 Implemented	03/03/97	12 Implemented	09/19/96
6 Implemented	05/15/96	13 In Progress	
7 Implemented	04/22/96	14 Implemented	09/27/96
10. Recommendations Included in this Report			
<p>Recommendation No. 11: Close any pop funds that exist in violation of the city charter and code.</p> <p>Description of Status: (In Progress) Memos have been drafted to all city departments to notify them if they have or potentially may have pop funds in their departments which violate city charter or code. Those departments which are in violation will be advised as to what actions should be taken to bring those funds into compliance.</p>			
<p>Recommendation No. 13: Establish procedures for meal allowances and recording fee funds, with the method for replenishing both funds changed to match procedures used for petty cash. Investigate the possibility of inclusion of meal allowance payments in payroll checks.</p> <p>Description of Status: (In Progress) Procedures for meal allowances and recording fee funds have been written and distributed. The current meal allowance procedures, authorized by the Memorandum of Understanding (MOU), require the city to make a reasonable effort to pay the meal allowance during the employee's first shift after it is earned, but in no event shall payment be delayed beyond 15 days. Therefore, the current MOU does not allow for the meal allowance to be paid on the employees next payroll check. However, the union has agreed to this change and the MOU will be amended to allow for the inclusion of meal allowances with payroll. Once the year 2000 upgrade to the city's current payroll system is completed the programming changes to allow the inclusion of meal allowances with payroll can begin.</p>			

Audit Report Tracking System																																			
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10. Recommendations Included in this Report																																			
<p>Background: The Finance Department, in conjunction with the City Auditor's Office, conducted surprise cash counts at all field office locations and at City Hall in the fall of 1995. City Departments were receptive to this joint audit report and implemented six (6) of the recommendations within 30 days and five (5) more within six months of publication of the audit. The two (2) remaining recommendations are listed below.</p> <p>Recommendation No. 11: Close any pop funds that exist in violation of the City Charter and Code of Ordinances</p> <p>Background: Several city field offices and some locations within City Hall had vending machines that could be in violation of the City Charter and Code of Ordinances. A machine or fund is in violation if the machine is accessible to the general public or if the machines is filled by a city vendor using city funds. In addition, some of these machines violate a contract that the City has with the vendor for cafeteria services. Funds in some instances were being used by staff to fund office needs or employee events. Surveys were sent to departments last year to query departments as to the locations of vending machines and the use of monies received from the machines.</p>																																			

Audit Report Tracking System	
Audit Title	City Change, Petty Cash, Meal Allowance and Recording Fee Funds
Report Date	May 14, 1999
10. Recommendations Included in this Report (continued)	
<p>Description of Status: In Progress</p> <p>The pop fund surveys alerted some departments of the potential violation of the City Charter or the Code of Ordinances. Finance will do a follow-up visit with each department's fiscal officer to obtain the status of these funds. Finance will then follow up the meetings with confirming memos to the departments stating which fund(s) is/are still in violation and what the agreed upon resolution would be for each fund.</p> <p>Recommendation No. 13 Establish procedures for meal allowances and recording fee funds, with the method for replenishing both funds changed to match procedures used for petty cash. Investigate the possibility of inclusion of meal allowance payments in payroll checks.</p> <p>Description of Status: In Progress</p> <p>Staff informed the Human Resources Department of the recommendation, and Human Resources presented the changes as a negotiated item for the Memorandum of Understanding with Local 500. Local 500 agreed to this negotiated item. Changes were anticipated to be undertaken in a new payroll system, because changes to the city's existing payroll system often lead to breakdowns which usually results in manual processes. However, due to new IRS reporting requirements the change will be implemented before a new payroll system is in place. Staff anticipates having meal allowances in the payroll system by the next ARTS reporting period. This time frame allows for testing, which, in turn, may minimize the effect on day-to-day operations of preparing payroll.</p>	

Audit Report Tracking System																													
1. Audit Title City Change, Petty Cash, Meal Allowance and Recording Fees	2. This Report Date 11/22/99																												
3. Department Finance	4. Last Report Date 05/14/99																												
5. Department Head Janice M. Reed	6. Contact Person/Phone Gary Morris x31187																												
7. Audit Release Date April, 1996	8. ARTS Number 956-023-7																												
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<p>Recommendation No. 11: Close any pop funds that exist in violation of the city charter and code.</p> <p>Description of Status: (Implemented) Meetings were held with fiscal officers in each department to discuss the status of each improper fund and to advise the department that the fund needed to be closed to be in compliance with the city charter and code. Based upon a survey taken in October, 1997 there were a total of 76 of these type of funds of which approximately 12 needed to be closed or changed to be in compliance.</p> <p>Recommendation No. 13: Establish procedures for meal allowances and recording fee funds, with the method for replenishing both funds changed to match procedures used for petty cash. Investigate the possibility of inclusion of meal allowance payments in payroll checks.</p> <p>Description of Status: (Implemented) As of June 11, 1999 all meal allowance funds have been closed and reimbursements are included on eligible employees' payroll check or direct deposit.</p> <div style="text-align: right; margin-top: 20px;">  </div>																													

Appendix C

City Manager's Response

